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On the STATISTICAL and FISCAL DEFINITIONS of the word "INCOME." By the REV. J. E. THOROLD ROGERS, M.A.,
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It will not be necessary, I hope, to apologise for introducing anew to the attention of the Society, a question the discussion of which has so often occupied the time and tasked the abilities of the Fellows. The subject is one of great interest, of difficult interpretation, and of warm debate. It is not, I believe, too much to say, that it is from this disposition among the Fellows to argue on the abstract significance of the term which forms the material for this paper, that attempts, hitherto indeed unfruitful, have been made to settle the basis on which the latter sense of the word "income" should be taken. The practical service which dispassionate inquiry into fiscal questions renders to the administration of any country, is at once valuable as a guide into the determination of principles, and as rendering easy the battle against self-interest and prejudice, which, to judge from the language of public men, is the hardest part of the work in defining the word "income." And though I feel sure that in the course of the discussion consequent on this paper, much more information will be thrown on the subject than will be found in the writer's statements, I shall hope first to show that the two senses of the word should be distinguished and contrasted, and next, that some very intelligible and legitimate objections may be taken to the persistent identification of all incomes on the mere ground of numerical equality.

One definition of income is purely statistical, and is determined by collecting the quantity of all products of labour achieved by all the members of a given community, and reducing their quantity roughly to a money value. Were it possible to procure full statistical information as to the amount of home produce, and nothing but short-sighted prejudices and ignorant fears have stood in the way of this desirable knowledge, we should be able by the contrast between production and prices to determine with sufficient precision the rate at which capital is accumulated, and thereupon, as capital is accumulated with a view to profit, the quantity of capital as related to the amount of income.

All income, with one exception, rent of natural fertility or advantage, is derived from capital; the cases in which capital is immediately used as income being, economically considered, too unimportant to deserve attention. For by the natural tendency towards accumulation, a tendency strengthened by any destruction of capital, they are rapidly counterpoised. The fact that A squanders, and B employs unproductively the capital they possess, will have, on the supposition that the general saving is in excess of the spending, no effect on public incomes, and will not diminish public wealth, because, however vicious or foolish the practice may be, it makes it possible for the stimulus of saving to be applied in some other direction.

Similarly all capital is employed for the purpose of income. It is not necessary to remind the Fellows of this Society, that wealth is not capital except it be employed in the maintenance of labour, or that potential capital has, except very indirectly, no economical value. To save, in political economy, is to spend, that is, to spend with a view to profit. Reserves or hoards, however useful or necessary they may be, are in effect suspensions of productive action, and the amount of such reserves will be, by the operation of economical laws, always reduced to the lowest quantity consistent with commercial safety, that is, with protection against particular contingencies.

I am aware that I am in danger of uttering some tedious truisms by dwelling even for a short time on these elementary economical axioms. But it is necessary, I submit, to state them, in order that we may arrive at the statistical definition of income, and that we may indicate its difference from that of the fiscal definition.

All wages of labour are products of capital. It is clear that the simplest physical exertion to which any economical value can be assigned is rendered possible by a previous expenditure, the purpose of which is to make the labourer fit for his work. This expenditure, indeed, in relation to profit, is exceedingly great, far greater, perhaps, and more costly than for the production of any commodity in which capital is fixed. It takes on an average probably 100*l.* to make the cheapest and lowest kind of labour effective; and the possibility of profit on this expenditure is very small, as is indicated by the fact that the supply of labour is almost always in excess of the demand, and by the proportion which the amount of income necessary for maintenance bears to the margin from which a saving or a replacement of capital can be effected.

It seems to me wholly unphilosophical to ignore capital in the person of a labourer, and to recognise it in a machine. Both have been made effective by expenditure, and the expenditure has been incurred with a view to production. The fact that a different rate of

remuneration rules in the one as compared with the other, although it may militate against the economical generality, that the tendency of profits is to an equality, does not affect the truth, that labour and machinery are equally the products of capital. But as all capital is produced by labour, and as all capital is employed in setting labour in motion, it follows that all income is produced from capital, and that while the definition of statistical income is inclusive of the proceeds of all labour, it cannot include anything which is not produced in this way. But though all income, with one exception, is derived from capital, and no product of labour can be reckoned statistically, unless it be so originated, it does not follow that the converse of the proposition is true, namely, that all the profit of labour and capital, interpreted in their fullest sense, is a part of income. To hold such a position would be to confound the whole with its parts, and to reckon the whole with the parts, as jointly contributing to a quantity.

A calculation of statistical income would include only the gross value of all produce, irrespectively of the persons among whom the quantity is distributed. That distribution must be unequal from natural causes, and the inequality may be further increased by factitious arrangements and enactments protective of particular interests. The effect of such an artificial interference with the natural distribution of produce among its several recipients, may not affect gross income, except it be so special as to stop production, by checking the legitimate growth of population, or by dwarfing the energies of labour. And of course concurrently with this limitation of the effectiveness of labour by exceptional advantages accorded to individuals or classes in the distribution of the produce, labour may be rendered less effective by the incidence of taxation, by the expense of governmental machinery, and by the burden of indebtedness.

The exception to which I alluded above is rent, in the strict meaning of payment made for the use of the natural powers of the soil. For this, the Ricardian sense of rent, no capital has been expended, and the sole cause of the profit derived by the owner of the soil is to be found in the competition of population for agricultural produce. To reckon rent with the produce of labour, and as part of the gross income of a nation, would be to reckon the same thing twice over, once in the produce, a second time in what is deducted from produce.

The answer to the question, thus, What is the statistical meaning of Income? is to be given by means of the answer to another question, What is the gross value of the produce of labour in any given year? Out of this produce every person is paid his share in the distribution, in consideration, in so far as his contribution to the produce is determined commercially and economically, of the aid

which he renders personally to the efficiency of production; and this produce is to be calculated from the joint sum of what is got together by labour for the purpose of home and foreign trade, and represented in material objects, and from these alone.

It is commonly the case, that when calculations of national income are made, other elements are reckoned besides material products. Estimates, for instance, are given of the wages of labour in the sense of mechanical labour only, and of the income of the owners of real and personal property, and of the professional classes, as derived from the aggregate of the income tax schedules. To these are added the sums received from investments in foreign countries. But all these calculations seem to me to be vicious, because they have a tendency towards reckoning the same element over and over again; and therefore give a factitious magnitude to the amount.

Few persons, I imagine, would reckon the dividends on public securities as a portion of income, but would look on them as a diversion of part of the products of labour to the fulfilment of a high political and economical obligation. But if we take for granted, as we may for the sake of argument, that true service was rendered for the liability incurred, the omission of which service would have entailed social, political, or economical loss, there is no radical difference between the payment to the public creditors, and the distribution of part of the gross value derived from labour among those who have subscribed capital for the formation of a railway. Nothing can be conceived to be a more persistent benefit than the fact, that at some time or other the country achieved security by the loan.

Again, no one would include the produce of taxation among the elements of national income. It would be clearly considered as a deduction from income, and as necessitating great sacrifices on the part of contributors, or what is among economists the same thing, greater labour. But on the hypothesis, which we again assume, that all the expenses of government are justified by the services rendered, there can be no real difference, in the general economy of society, between the labour of the public administration and the pains of a railway manager. To diminish the charge of government is, to be sure, of the greatest importance, but in the same way as it is desirable to replace expensive, cumbrous, or inefficient machinery by what is cheap, easy, and effective; it being always understood that the sole test of cheapness is efficacy.

If, however, we are constrained to exclude from the position of an independent contribution to income the aggregate of rent, the cost of the public debt and the charge of administration, we must, *pari passu*, exclude all income which is not represented by any material result. Such incomes are, to be sure, derived from services of the highest value to the community, and which could not be omitted or

suspended without the most serious results to the efficiency of all labour; but as they are paid out of the gross produce, so they contribute to, and are found in the value of that produce, and could not be reckoned over again except in defiance of the commonest logical rules.

There remains yet another source of income, the amount of which must be very variously computed. I mean advances to foreign Governments, or to foreign enterprise. Against this must be set the quantity of home securities held by foreigners, a sum probably far less than that with which it is compared, but still notable. It would not be to the purpose to show on this occasion, what is no doubt known well enough to the Society, how it is that such payments from abroad affect the course of trade, or how little, if we estimate their immediate and indirect effects, they bear upon the real income of the country in which they are received. Income, in short, is not to be compared with profits, and must be distinguished from capital. It is not, however, used in so limited a sense as to apply to those products only from which a portion is to be set aside to replace the loss of capital, except that assignment is immediate. The gross amount, for instance, of exports and imports is not income, for some portion of this is capital perpetually renewed. But the gross product of capital is reckoned as income, though the capital be in some cases consumed in the creation of the income, provided always it be replaced to an equal or greater amount from some other source. If, therefore, on examining the subject, that definition of statistical income be taken which reckons the value of material products only, and which asserts that the national revenue is to be found in the joint produce of all labour as exhibited in tangible objects alone, we shall, I think, be able to avoid the confusions which are induced upon this question whenever it is estimated from any other point of view, and the contradictions which are involved in rival theories on the subject.

Economists have calculated income without defining it, and have, therefore, tacitly assumed that it includes the value of all incomes in distribution, instead of all incomes collected. And again, financiers have always treated income, both under the old and new income tax, with some comparatively unimportant exceptions, as representing gross income, the practice being, that all income should be taxed equally, however derived; and the sole limit put on the extension of the tax being the charge of collection.

This is not the occasion on which to discuss the merits of a property as opposed to an income tax. It may be observed, however, that whenever the tax is one on income, it will always be the case that some kinds of property will enjoy a partial, others even an absolute exemption from taxation; and that, therefore, the question

of the comparative equity of the two methods cannot be said to be determined.

It is clear, indeed, that whatever may be suggested as the basis of taxation, taxes must be paid from profits, the only exception to this rule being the tax on successions to property. But the rate at which individuals may contribute to the aggregate of taxation may be very different in relation to their individual profits, and affect them in very different degrees of severity.

Hence it will be manifest that if income, considered collectively, as comprising all material products of labour, be now treated in its distributive aspect as indicating the power of expenditure possessed by individuals over that portion which they receive, that large and very variable deductions must be made from gross, in order to arrive at net, income. Out of the amount of each person's income, contributions to a greater or less amount are made of necessity to the incomes of others; the most notable among their contributions being made directly or indirectly by taxation, imperial and local, by the charge which the appropriation of the soil and the demand for special sites enable the owners of land to levy, as well as by the necessity which exists for replacing the exhaustion of capital. Income considered as personal revenue, is not what one receives, but what one can spend. And it is surely just that a tax should be levied on the capacity to spend, and not on mere receipts; unless finance is to mean a raid on the weak and unprotected. An avowal that taxation should be levied on gross proceeds, would be the assertion that a graduated income tax is a legitimate financial expedient. Such a theory, however, has been denounced, and rightly, as spoliation. But in practice it is the inevitable consequence of the rule on which the tax has been hitherto assessed and collected. I do not say that such a purpose is present to the parties who vindicate the existing scale of charges on income, for they have never attempted to define either income or profits; but I think it may be proved that the incidence of the income tax favours landlords, traders, and some fund owners, and presses with special severity on professional persons, especially on such as have only what is called a precarious income; for if the proportionate payment of the latter class is in excess, it is clear that a portion of the just burden is transferred from one body of men to another.

A landlord is taxed on a spontaneous income issuing from a material, the value of which is constantly increasing. Of the fact of rise in rents there cannot be the smallest doubt, even if we limit rent strictly, as it should be limited, to the profit on the natural powers of the soil. I have, I think, mentioned before in this Society, that while prices of the first necessities of life have as a rule risen ten times in nominal values since the sixteenth century, rents of the

same parcels of land have risen eighty times in the same period, and that the value of this element of personal income is being constantly enhanced. Further, this species of property achieves peculiar favour from the legislature. It has in effect no burdens of a special character upon it, as has been commonly alleged. The two forms of local taxation which appear to press upon land—poor rates, for instance, and highway rates—are in reality mere substitutions. If there were no poor rates, the wages of labour would inevitably rise; and the rent of cultivated land depending on the cost of agriculture; rents would as inevitably fall. At present the landowner pays indirectly only a part of the charge of wages, since much of the poor rate is collected from those who do not employ labour productively at all. Similarly a highway rate is only a means for economising labour, for a good road means the employment of less power in drawing carriages. Here, however, by means of a system of turnpike tolls, the landlord contrives to throw a large share of what should be done at his cost on the shoulders of the general public, and is constantly wearing out a road at other people's charge. Up to a late period he was exempted from the payment of succession duties, and even now the convenience of a family settlement is made an excuse for his contributing to public necessities at a diminished rate, and a privilege, which should be visited with a fine for the licence, is gravely made the ground for exemption from the burden which lies on the great mass of the landowner's fellow countrymen. He can borrow money from the nation at rates of interest lower than could be got in the open market. The tax on imported corn, affecting as it does all that is sold, is equivalent to the gift of at least a million sterling annually to the landowner. His personal income, that is, his power of expenditure, is thus exceptionally increased by legislative acts and legislative omissions, and he occupies a particularly beneficial position. I allude the rather to these facts, because in the report of evidence published by Mr. Hubbard's committee, I constantly recognize this foolish or dishonest appeal to the exceptional burdens imposed upon land.

Now one characteristic feature of such a spontaneous income as that which proceeds from land, is that the receiver has a larger discretion in his personal expenditure. I am not now alluding to his comparative exemption from the necessity of saving in any sense, and relief from any concern about replacing his capital, but to his power of choosing the locality of his residence and expenditure. If, for instance, I hold an office which compels my occupying an expensive house, when, if I had the power of exercising any discretion in the matter, I could get similar accommodation at half the cost, and I pay an equal tax on my income, I am to all intents and purposes the victim of a graduated income tax, and, by implication, the man whose

discretion can be exercised, profits by the arrangement. In effect, the practice is to show him still greater favours, for it is said, that great mansions are rated habitually at nominal sums.

This wrong is remedied to some extent in the case of the trader, part of whose house is reckoned as a charge on his business; but I cannot discern the equity of exempting the trader's shop, and taking no account of the physician's abode as part of the necessary charge of his occupation. To tax either at the rate of a purely private house seems to me unfair, nor is the injustice much mended by exceptional consideration shown to one. He has evidently less to spend out of the proceeds of his income than the man whose motions are free, and who is at no charge in the production of his revenues.

There is, of course, an obvious resemblance between the condition of the fundholder and the landowner. Both are in receipt of incomes on which no pains or anxiety are exercised, and both have the fullest discretion in the expenditure of all which they receive. But withal there are some marked differences between the two. On the hypothesis of a permanent income tax, I am, I confess, at a loss to reconcile its first imposition on the fundholder with the simplest principles of public morality. It would seem that to grant, in consideration of capital advanced for the service of the State, a perpetual annuity at a fixed rate, and subsequently to diminish the rate of the annuity without giving the option of repayment, is mere spoliation. After a time, of course, matters right themselves. The tax diminishes the capital value of the annuity, and on transfer ceases to be a wrong to the new purchaser. But the morality of the transaction remains the same. There is nothing parallel to it in English financial history, except perhaps the payment of the public dividends in a depreciated paper during the suspension. No one, I believe, justified this line of action originally, though there were not wanting persons who urged that since the act had been once committed, it would be equitable to make the levy perpetual by diminishing the quantity of gold contained in the sovereign when cash payments were to be resumed.

The trader pays only on his profits. It is a well known fact that profits tend to an equality, and that the difference between the rate of profit and the rate of interest is the measure of the skill and labour employed by the trader in the management of his capital. If in consequence of loss or ill success in business the trader's profits are *nil*, and he is forced to trench on his capital, he would not, I suppose, be liable to a charge for the tax at all. As a fact, indeed, he occupies a still more beneficial position, for he is empowered to make his return on an average of three years, or on the profits of the last. No one would deny that since he has chosen to employ his capital in this way, he should pay out of the profits of his business a

full rate on the capital he possesses, even if it be alleged that he should receive the benefit of an exceptional rate in respect of that portion of his profits which is due to his skill and superintendence. But in reality the trader is largely considered, first by the reduction in the rate upon his premises, next by the power of return alluded to above, and lastly because in the great mass of business of this kind there is greater power of compensation by increased charges on the public for service rendered, than in other occupations where competition is more active, and remuneration more fixed. It is well known that the power of combination for the purpose of maintaining prices is possessed by the larger number of the trading classes, and that the power is used; and, under these circumstances, I do not conceive that traders as a body are exceptionally visited by the tax. At any rate, if a calculation were made as to what is the ordinary interest on capital—a virtually spontaneous source of income—and what is the remuneration generally procured for supervision in a business of what may be called a safe character, it would not be found I imagine in effect, that the present amount of payment on profits in trade would be much diminished, even if a very liberal interpretation were given as to the scale at which the latter contributory to the profits were rated. It has always struck me that traders, like landowners, have been treated very generously by the administration, and the only interpretation which I can find for this liberality, is the obvious one, that they could not be conveniently affronted. I am aware, of course, that we have only entered on the vestibule of economical freedom, and that we are surrounded in all directions by protected interests; but surely the most odious form in which protection can exhibit itself, is when it comes before us in familiar drama of robbing Peter to pay Paul. Nor am I less alive to the expediency on the part of those who wish to occupy the Pauline status, of the great value of that rhetorical figure so often used as to the inquisitorial nature of the tax. It would be very much to the interest of those who are harshly treated by the tax, if the inquiry were really that of a just inquisition, in other words, of an honest interpretation of its incidence.

On the other hand, the owner of house property, especially that held on short leases at small ground rents, is taxed very unequally, Take, for instance, the facts of the town in which I live. Great part of the houses in Oxford are held—pursuant to an Act of Elizabeth disabling corporations from longer leases—at periods of forty years only; renewable, if the corporation pleases, at seven or fourteen years. Of course, for obvious reasons, such a house is built as badly as possible; the repairs on the house absorb a large portion of the income; and the capital of the lessee, since the corporations are exercising largely their discretion of declining to prolong the term,

is rapidly being consumed. But the tax is levied on the gross rental—a rental which I submit is not, and cannot be, legitimately fiscal income. The same reasoning applies to the profits of mines. Now, to say that there cannot be found a valuation of the interest which the lessee of a house and the shareholder in a mine has, is to deny the possibility of an every day transaction. The capital absorbed in a mining transaction is a matter of obvious scrutiny; the rate of profit is determined easily by the market value of the shares.

It has been sometimes said that equal taxation on permanent, and precarious or terminable incomes, is just, because the permanent income pays the tax in perpetuity, the precarious only while the income accrues. But this reasoning leaves out of sight that the capital, in the latter case, is generally consumed, in the former, *eo ipso*, is perpetual, and at any time renewable by sale. It omits also to recognize that the advantage of administration is prospective as well as immediate, and that by the same course of reasoning, when the supposed benefit derived from a public debt contracted in past time is refuted or exhausted, repudiation would become legitimate, and even obligatory; or perhaps, to put the case most clearly, the best illustration of the distinction laid down in the justification alleged, is that of the seizure of the whole that an individual may possess. In this case, no doubt, the tax would only be paid once.

The peculiar wrong of the income tax assessment falls upon professional men. By this word I mean all who are in receipt of fixed and conditioned incomes, and all who are forced by social and other necessities to incur a large outlay in earning a competitive income. I understand a conditioned income to be that which is dependent on residence and the fulfilment of duties, as that of a clergyman or a clerk; a competitive income one which, like a barrister's or a physician's, stands in need of large social advertisement. He cannot reduce his liabilities proportionately to his receipts. The clergyman, whom the legislature it would seem delights to vex, is ordinarily precluded from deducting what is occasionally necessary for the due discharge of his office, the stipend of a curate. I suppose that the shopkeeper is permitted to deduct the wages of his servants from the schedule of his gross receipts. At any rate it needs no great sagacity to imagine that those parties are subjected to a graduated income tax, and fully as I agree with those who denounce such a method of taxation, I am the more disposed to do so when I see the graduation inverted, and a heavier charge laid upon the poorer contributor. We can most of us remember the argument adduced with conclusive force against the tithe on produce, that it taxed unequal intelligence, cost, and activity at equal rates. Now, an income tax is of the nature of a tithe, that is, it possesses these characteristics.

It is sometimes said that the effect of a permanent income tax would be to right matters by diminishing the competition for profits in certain callings; and that, for instance, the medical man is indirectly compensated by the fact that the licensing system which such a tax amounts to, leaves him a larger margin of possible gain. This reasoning of course can apply only to that state of society in which the tax, having long existed, has actually affected the supply of fresh agents; meanwhile the existent contributors are mulcted beyond their just liability.

It is no doubt convenient and abstractedly correct to consider that the pressure upon every calling is regulated by the advantages accruing from following it. But this rule is liable to large deduction in practice.

Many professional people fulfil, and will fulfil duties under unequal burdens and unequal compensation. Many persons, whole classes indeed, are very patient under the prospect and incidence of fiscal inequalities. There were no parties who were more naturally alarmed at the abolition of the corn laws than the beneficed clergy, partly because there was a general belief in the future diminution in the market price of all farm produce, much more because their rent-charge was most absurdly settled upon the average of three elements only. But they never made the smallest move against the agitation which happily resulted in the overthrow of these mischievous enactments. An economist cannot take account of conscience, or sympathy, or habit or tradition, in the competition for employment, but he is a mere doctrinaire if he forgets them.

One of the Fellows of this Society, my friend Mr. Sargant, in a courageous recantation of some older and more instinctive opinions of his on this subject, has founded the equity of an equal income tax, on the presumption that equal protection is extended by the State to all persons alike. Now, if it be seen that an apparently equal tax is not equal, this defence of the existing practice is the heaviest charge against it. But equal advantage seems to be a very unsafe ground on which to defend any tax. It may be disputed in fact, and, even were it admitted, it would open the parallel question of how far parties contributed equally to public wealth in its best and truest aspect. A person weak or helpless, by sex or age, is surely more protected than one who is strong and capable of maintaining himself against aggression. Mr. Sargant's theory would clearly free all volunteers from taxation, increase it upon children and widows. A person who is constrained to vindicate a right in a court of law is, by the very fact, less protected than one who is under no such necessity. No man, therefore, *durante lite*, should be liable to the income tax. A person who, like a landowner, possesses an exceptional right to full payment of his claim from the assets of an

insolvent before an ordinary creditor, is as manifestly more protected. And the relations of an individual to the community are many sided; he is not only protected by it, but he contributes towards its resources and its wealth; his contribution may be many times more than the advantage reciprocated. On the hypothesis of equal payments for equal protection, it is clear that equal amounts should be contributed from equal resources. Now a man the exigencies of whose domestic ties are large, is in reality contributing more than a man whose misfortune or whose prudence has relieved him from such obligations.

This leads me to consider the suggestion which Mr. Mill has made and insisted on in his work, and in his evidence with great pertinacity. I am, I confess, at a loss to discern the arithmetical fallacies which he says are inherent in the scheme which could distinguish income out of permanent capital, and income out of labour and risk, that is, out of depreciating capital. But I am still more at a loss to recognize the equity of his doctrine of "savings." Unfortunately he has not defined his term; though, as far as one can gather from his evidence, it means merely the accumulations of such capital as appear in the most tangible and immediate forms, as stocks shares, and the like. He argues that all persons who should save should be computed to save, and so thereupon relieved from a portion of the tax. But he does not tell us, except generally, why a man should save; he will only save in order to secure himself against want in the time of his old age or incapacity, or to make provision for his children; a relationless annuitant has no manifest motive for economy.

It does not appear that Mr. Mill grounds his claim for the obligation of saving on the fact that a man has ties in the shape of children. This possession he considers to be wholly voluntary, and therefore no legitimate argument for exemption. I agree with his inference, but I see that in the majority of cases it is fatal to the likelihood of saving, in his sense at least, and by implication reduces the argument for exemption to a narrow sphere of operations, those, namely, of provision against old age.

But surely the limitation of the word saving to accumulations of immediate or tangible capital, is in the fullest sense arbitrary. Suppose, for instance, that two men have an equal income, and an equal number of children; the one man gives his children the education of day labourers and saves the surplus, the other expends the larger portion of his income in a beneficial education to his children, and so has a very small surplus to save. Shall we grant—on the most familiar law of capital, that it is effectively saved only to be consumed—that the latter is no saving, the former is. Surely an educated, as contrasted with an uneducated man, is a highly effective

as opposed to a very ineffective machine; and surely from a national point of view the expenditure of capital in the one is as much a source of public wealth, as the accumulation of capital in the other. I do not so much object to the principle that capital saved should not be taxed *in transitu*, except upon succession; but I cannot agree to the limitation of the term saving to mere accumulations invested in securities. It is worth while to observe, moreover, that as long as there exist any fiscal charges on necessary expenditure, the kind of saving for which I vindicate the name *is* taxed *in transitu*. This must be borne in mind if we attempt to settle the amount of capital expended in educating such persons as earn incomes, with a view to taxing the capital implied in their productive capacity. A man who saves by way of investing capital in a recoverable form, or in an immediately saleable shape, is exempt from taxation in the act of saving, except in so far as he may be visited by stamp duties on purchase or transfer; but another, who expends a portion of his income on the industrial or professional education of his children, is taxed in the fact that the charge of the machinery is enhanced by being made liable to fiscal contributions in its creation and its working.

It was no doubt convenient for the persons who formed the last parliamentary committee on the income tax, to profess incapacity for discerning the fundamental difference between spontaneous and conditioned incomes, between these incomes which depend on the labour of others, and those which are derived from the labour of the recipient himself. But it was a distinct abandonment of administrative duty, when the members of the committee were perpetually putting the question to the witness, whether he could supply any means by which the parties who would, *ex hypothesi*, be liable to an increased charge on the adjustment of the tax, could be reconciled to the payment. If it could be proved that the incidence was unfair, it was surely in the last degree irregular, to perpetually insinuate that justice could not be done because those who benefited by the wrong had the largest share of representative power, as well as the most powerful motives for resisting any equitable adjustment. Every shilling of rent paid for the natural powers of the soil, is in effect derived from that industry which alone renders rent possible, from that accumulation of labour which creates by its competition for a space on which to exercise its energies, a price for bare standing ground. No person, of course, can object to the existence of rent as a payment for a necessary continually enhanced by the growth and activity of society; one may as well object to the law of gravitation, but it can be only an affected stolidity which professes not to see that it is in its very nature the proper object for considerable contribution to the State, instead of being the object of exceptional immunity.

That therefore is, in the fullest sense, fiscal income, which is the product of spontaneous social forces, and that profit on capital which is irrespective of any labour expended on the creation of the income. Of this there are two kinds, rent of land and interest on advances; rent having this special advantage, that while capital out at interest neither increases nor diminishes, and the capital of labour is in its very nature decreasing perpetually, rent is affected by an inverse law, and is perpetually increasing with the progress of society. And though some part of the advantage which the possession of land induces, is neutralized by the fact, that the rent of land ordinarily represents the lowest rate of interest on purchases, because the prospective improvement in its value, is taken into account by the purchaser, to say nothing of its exceptional immunities and special privileges, yet it clearly does not make all the difference, and affects manifestly such parcels of land only as are the subject of actual transfer by sale. But by far the largest portion of land in this country is virtually subject to a perpetual entail, and its rent cannot be said to be in any sense countervailed by the increased charge implied in its purchase.

The profits of all capital are not visited by taxation. For instance, capital is largely invested in works of art, not only with a view to the immediate pleasure or vanity of the purchasers, but quite as much to the pecuniary advantages which will be consequent on the dispersion of the collection. It is not the practice to tax this kind of property, though it is not easy to see why it should be exempt on either aspect of its possession. It is perfectly ridiculous to say that the levy of a tax on such investments would discourage purchasers. It does not do so in the United States, where a tax on all kinds of property has long been the rule. The same reason applies to private wine cellars, the contents of which have a cumulative market value, and to many other similar forms of capital.

All men who labour with the view to the acquisition of income, have, it seems to me, two distinct grounds for partial exemption. One of these is the necessity for replacing the capital included in themselves; the other is the limitation put on their spending powers by the obligation of their *locus standi* for carrying on their occupations. Neither of these claims are admitted under the income tax; but the powers can be secured by the agency of a joint-stock company.

The tax on the proceeds of a joint-stock company are levied on profits only. Suppose the investment of capital in this case were a mine, leased for twenty years, and perhaps liable to exhaustion within that period. If during the continuance of this lease the company creates such a reserve as will suffice to secure at the end of the term, or within the period calculated for the exhaustion, a sum

equal to the capital originally subscribed, and at the end of the period re-grants the capital sum to the subscribers, it does not appear that the income tax could touch any more than the true profits of the company. Now, the short term, and the decreasing value, and the certainty of exhaustion, are the conditions which affect the professional man, with this difference,—*that he cannot make the reserve*. It is the fault or the fraud of some joint-stock companies, that they do not prepare themselves for the contingency of replacing their capital; it is rather hard upon individual men, that they have no power of taking this precaution. It is to the purpose, also, to remember that as the professional man's time is his money, as the proverb goes, or, in other words, that he cannot, in order to exist, waste it on appealing to Government officials; he has to put up with overcharges which he could prove, even on the theory of equal receipts meaning equal incomes, but cannot afford to rebut. Perhaps it might be worth while, in this age of joint-stock companies, for professional men to combine for the purpose of engaging the services of some person whose sole business would be to defend them against overcharges.

Often as we hear of false returns under the present system, ludicrous as have been some of the revelations consequent, in particular, on a scandalous compensation given to certain parties supposed to be injured by a law reform; and frequent as are the complaints about frauds on the revenue, the significance of such acts is seldom discussed. It has not even been, I think, observed, that the Income Tax Act does not define its own terms.

The comparison between an unfair act of government and the violence of an enemy; the question how far fraud is justified in evading the impost of the one, in the same way as it is admitted to be legitimate in deceiving the other, is perhaps an obscure and difficult problem in political casuistry, because there are infinite degrees of violence and wrong. No one, indeed, would doubt that there are extreme cases of rapacious administration, in which the evasion of governmental demands becomes a necessity, if not a duty, because obedience is the negligence of self preservation. And the more powerful and autocratic a Government is, the more difficult it is to evade violence except by fraud. That the administration felt themselves absolute in the present method of the income tax, will be plain, I think, from the perusal of the volume of evidence consequent on Mr. Hubbard's motion, as contrasted with the contemptuous silence of the report. That the impost is unfair, is in the same way contained in the fact that self-assessment is the rule in incomes which cannot be taxed at their source. Those, however, though of the same nature, which can be so taxed, are visited with the full measure of fiscal exaction. But the instinct or conviction of a fiscal

wrong, is the greatest temptation to public morality, and ought to be an object of anxiety to the administration.

The true corrective to this fraud, in many cases where voluntarily assessment is necessarily allowed, is found, I am convinced, as much in the knowledge that if one injured person may escape, other injured persons cannot; as it is in the acknowledgment of the duty that we are bound to render each our share to the charges of administration; and far more than in the impression that the theory of the income tax fulfils even the fundamental conditions of equity.

It is not, I believe, possible to defend an income tax either on the grounds of equity or morality. It is possible to defend a property tax. But the confusion of both in one title, and the argument that both stand on the same level is, I think, to confound rest with motion, to renew the fallacy of Zeno, to identify indefinite extension with limited quantity, and to visit the attribute of perpetuity on perishable and transient objects. Hence any substitution of an income for a property tax, any remedial measure founded on the acknowledgment of an identity between the two sources of revenue, is sure to involve contradictions and irregularities which no art can obviate.

The first income tax had its special defence. The people of this country, or at least those who guided its destinies, believed that the political being of Great Britain was comprised in the vigorous attitude which it took against France and its ruler, as well as in the necessity there was for maintaining public credit at all risks. This conviction, right or wrong, founded on an instinct of self-preservation; or on a mistaken panic, adroitly used and fomented for reactionary purposes; demanded sacrifices; and the English nation had to adopt means analogous to those which in a beleaguered city justify the spoliation of private granaries. For a very different reason, to sustain, namely, the credit of a financial operation, scientifically certain of success; but necessitated by party antagonism, and propounded by a timid, halting, repentant, unconverted statesman; and therefore involving, to weak and ignorant persons great risks; a second income tax was imposed. The experiment on the tariff was, as all prudent persons had predicted, entirely successful, but the anomalous and occasional expedient remains, repudiated at once by morality and equity.

I will, in conclusion, attempt, notwithstanding these inherent anomalies of an income tax, to suggest what appears to me the nearest approach to an equitable assessment; conscious, as I said before, that there are objections to be made to every scheme, and will finish this paper, already unduly lengthy, with a statement of the positions which I have attempted to prove.

All taxation must be derived from profits, with one exception,

and all profits, with one exception, are derived from capital. The profits of capital, therefore, are the proper subjects of taxation; the amount derived from this source being augmented by additions made from succession duties, and by levies on the rent of the natural capacities of the soil. And this capital is found at once in the quantities employed for profit, on the expectation, necessarily fulfilled, that they will be perpetually renewed; and on these portions which being fixed, are, in different degrees, not susceptible of recovery, but either last for a long time, or are rapidly exhausted.

Upon such capital, when it begins to yield a profit, a tax should be levied, at equal rates, on the quantity comprised in the object. Suppose, for instance, 2,000*l.* were expended in purchasing a perpetual rent of 100*l.* a-year, or a perpetual annuity of the same amount, or in educating a labourer, a property or income tax of equal amount should be exacted from each person who is in the receipt of the rent, the dividend, or the remuneration for labour. It is clearly easy to estimate the first two of these heads, with those sources of income cognate to them. Nor would it be difficult to assess professional or labour incomes, under a comparatively small number of schedules, by taking account of the capital expended on making the labourer capable of self-maintenance, and by calculating the age at which he ordinarily becomes capable of his professional exertions. At any rate we need not be deterred, were the principle admitted, by the chance that its working would involve some administrative labour at the hands of those who occupy their offices on the condition that they should render some equivalent return for the privileges they possess; and what is more to the purpose, if the labour be of such a kind as could be easily rendered by fifty persons in this room.

It must be admitted that there is a great objection entertained to financial theories; and appeals are constantly made to experience when it seems desirable to combat the logical force of a principle. To these objections there is one answer, gathered also from experience, that every single beneficial reform, in every direction, has been achieved by theory in refutation of experience.

I should be, as I have already said, prepared for many objections to this or to any other theory of an income tax. I will attempt briefly to advert to one or two which may arise, especially those connected with the partial exemption of some incomes because they seem to be of a terminable character, and the total exemption of others.

Successions under a strict settlement should be treated for the purposes of taxation as estates in fee. The permission to create such settlements, and the privilege of binding posterity in the interest of a particular family, is so manifestly a matter of private

advantage or convenience, as not to form the ground for any exemption from the full measure of taxation. An arrangement by which a testator or a settlor can confer protection upon a son or other object of his grant, against this person's own acts, should not be construed as a claim for relief from a condition which is attached to the grant or devise of another man, who may think that the gift of the corpus is better sense or truer justice, or what is even more to the purpose in an industrious community, recognises the necessity of leaving the objects of his act free to dispose of or deal with his gift or grant. And, for similar reasons, the same rule should apply to jointures granted under a marriage settlement, in case there be a further limitation of the corpus from which the jointure proceeds. All such grants are for fiscal purposes only nominally distinct from grants in fee. If the paradox, that primogeniture is for the benefit of society, can be maintained, the custom is at least of equal benefit to its object. If it be disputable, and few persons in the face of its universal explosion in the rest of the civilized world, would have the hardihood to deny that it is an open question, it can be still less the object of especial favour.

My theory would visit all profits on capital with a tax, whether they be small or great. I cannot understand why the profits on co-operative stores are exempt from taxation, or the rents of land devoted to what are called charitable purposes, any more than I can see the justice of exempting such corporate incomes as do not represent value in labour from succession duties; and I am still waiting for a proof from Mr. Mill that a property tax (such as I suggest) would be a wrong or a spoliation.

The positions, then, which I have attempted to maintain are as follow :—

1. Statistical income, that is, the calculation of the annual resources of any country, is to be discovered in the gross value of all material objects produced and purchased by its annual labours.

2. Income for fiscal purposes is that proportion in the distribution of this gross or national income which is allotted to each individual or appropriated by him, and is available for purposes of voluntary expenditure. In this sense only income can be called profits.

3. All profits are derived from the expenditure of capital, with one exception, that of the rent of land, and there is no true profit unless the capital be recovered.

4. All taxation must be derived from profits on capital, with one exception, the duties, namely, on succession.

5. No income tax can approach justice which puts the wages of labour on the same footing as the interest on stock and the rent of land.

6. All capital yielding profit should be taxed when it can be shown that a profit has been realised.

7. No income tax can fulfil the conditions of entire impartiality, but the nearest approach to equity would be achieved by such a system as (in addition to the above-named exception) treated that only as the subject of taxation which is represented by the capital expended in rendering profit possible.